ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF OKLAHOMA GAS AND	)	
ELECTRIC COMPANY SEEKING A	)	
DECLARATORY ORDER FINDING ITS	)	DOCKET NO. 17-030-U
MUSTANG GENERATION PLANT	)	ORDER NO. 3
MODERNIZATION PLAN IS CONSISTENT	)	
WITH THE PUBLIC INTEREST	)	

ORDER

On August 15, 2017, Oklahoma Gas and Electric Company (OG&E) filed an *Application for a Declaratory Order* (Application) seeking a finding that its decision to construct a natural gas-fired combustion turbine (CT) generation facility in the State of Oklahoma is consistent with the public interest. In support of its Application, OG&E filed the direct testimonies of Donald Rowlett, Phillip L. Webster, Lanny Nickell, Robert Burch, and Gregory McAuley. On November 15, 2017, the Office of the Attorney General Leslie Rutledge (AG) filed the direct testimonies of Sarah Page Tacker and Kevin D. Woodruff. On that same day, the General Staff (Staff) of the Arkansas Public Service Commission (Commission) filed the direct testimonies of Regina L. Butler, Clark D. Cotten, and Gerrilynn Wolfe. On December 6, 2017, all parties filed a *Joint Motion to Approve the Settlement Agreement and for the Waiver of the Hearing* (Joint Motion). The Parties filed the Settlement Agreement along with the supporting testimonies of Ms. Butler, Ms. Tacker, and Mr. Rowlett on that same day. In this Order the Commission approves the Settlement Agreement filed by the parties on December 6, 2017, and waives the remainder of the procedural schedule as requested by the Joint Motion.

Positions of the Parties

OG&E

OG&E witness Rowlett testifies that OG&E has decided to replace the steam units at the Mustang site with CTs. He states that OG&E is retiring the old Mustang units for a number of financial, operational, reliability and safety reasons but that the Mustang site is important for reliability purposes and that CTs are the best technology and only realistic option to install at the Mustang site for replacement capacity. Rowlett Direct at 3-4. He explains why OG&E believes that its plans are reasonable and should be approved by the Commission as being consistent with the public interest. He states that the need to retire the steam units is difficult to dispute, and notes that OG&E's operational staff believes that the new capacity needs to be located near OG&E's largest load center, Oklahoma City. He states that the Mustang site has unique benefits to the security of the transmission grid, significant infrastructure in place, a trained and skilled workforce, and community support; in addition, a Southwest Power Pool (SPP) voltage stability study confirmed the need for CTs, specifically at the Mustang site, which offers value from a reliability perspective. *Id.* at 5-8. He notes that Black & Vetch's independent review of OG&E's decision to retire the old Mustang units and SPP's independent assessment of the need for CTs at Mustang validate OG&E's decision. *Id.* at 9-11.

Mr. Rowlett explains that OG&E initially sought approval in Docket No. 16-014-U but withdrew its application stating that it had not yet received regulatory approval for the new Mustang units in Oklahoma. He admits that in retrospect, OG&E should have filed its application before the Oklahoma Corporation Commission (OCC) proceeding concluded but believed OG&E would have sufficient time to receive an Arkansas order before construction commenced. However, he explains that OG&E was squeezed between a protracted OCC process and an abbreviated construction timeline shortened to allow the CTs to be in operation when the old units were retired, thus OG&E began construction in August 2016. He admits that OG&E did not comply with Ark. Code Ann. § 23-18-104 which requires pre-approval for the construction of generating facilities outside of the state of Arkansas but admits that OG&E clearly should have planned its filings in Arkansas more effectively and apologizes. He commits OG&E to being diligent in the future to ensure this does not happen again. *Id.* at 10-12.

Mr. Rowlett explains how Arkansas customers benefit from the Mustang project. *Id.* at 12-13. He admits that OG&E did not conduct a competitive bidding process for the capacity but notes that from OG&E's management perspective, there were no other options; he also notes that OG&E did engage in a competitive bidding process for the construction and installation of the Mustang CTs and considered market opportunities as an alternative. *Id.* at 13-14.

Mr. Rowlett testifies that OG&E is requesting the following depreciation rates (excluding dismantlement) for the new CTs:

341-Structures and Improvements	3.00%
342-Fuel Holders, Producers and Accessories	2.95%
343-Prime Movers	3.45%
344-Generators	3.16%
345-Accessory Electric Equipment	3.10%
346-Miscellaneous Power Plant Equipment	3.31%

He states these rates are based on an analysis conducted for the Company's upcoming general rate case in Oklahoma that is expected to be filed at the end of 2017. *Id.* at 16.

To conclude, Mr. Rowlett testifies that OG&E will seek recovery of the new CTs as part of its Formula Rate Plan (FRP) filing in October of 2018, with an estimated Arkansas jurisdictional revenue requirement of approximately $3.7 million during the term of the first FRP. OG&E will seek approval and cost recovery from the OCC in its next general rate case, which is expected to file by the end of 2017. He states that approval of the new CTs at the Mustang site is consistent with the public interest. *Id.* at 15-17.

Mr. Webster is Associate Vice President at Black & Veatch and was retained by OG&E in 2016 to provide an independent review and opinion on OG&E's decision to retire units 1 through 4 at its Mustang Generation Station. The scope of Mr. Webster's assignment was limited to considering only the Mustang steam units using data available at the time the decision was made by OG&E to retire the units. This included reviewing an earlier report prepared by Burns & McDonnell, dated January 2012. Webster Direct at 3-4.

Mr. Webster testifies that he began his evaluation in May 2016 and provided his final report to OG&E in September 2016. He concludes that given the advanced age of the Mustang units, continuing to operate them with the associated operating costs, maintenance requirements, capital investment, and likely degrading reliability was clearly not the optimal path. *Id.* at 4-5. Mr. Webster details the factors evaluated. *Id.* at 5-6.

Mr. Webster testifies that the Burns & McDonnell report identified certain capital projects that would be necessary to continue reliable operation of the Mustang units. These capital projects totaled $94 million and are detailed in the Black & Veatch Report labeled Direct Exhibit PLW-2. Mr. Webster states these types of projects are common to older power plants and are necessary to maintain an acceptable level of equipment reliability and prevent catastrophic failure of the plant's critical components. Therefore, he agrees that these capital projects would have been necessary, but also believes additional projects costing $15 million would have been necessary for Mustang Units 3 and 4. Due to the advanced age of the Mustang units, Mr. Webster believes that completing the capital projects would not guarantee the continued reliability of the Mustang units. *Id.* at 6-7.

Mr. Webster states that Black & Veatch's evaluation also looked at alternate generation that might be more cost effective compared to the continued operation of the Mustang units. For the comparison, Mr. Webster selected three options from OG&E's 2014 Integrated Resource Plan (IRP)and concluded that retiring the existing units in 2017 and replacing them with CTs was the lowest cost alternative. *Id.* at 10-12.

Mr. Nickell is Vice President of Engineering for SPP and was asked by OG&E to provide independent validation of the need and benefits of using quick-start CT generation to help reliably operate the transmission system in SPP. He also discusses the studies conducted by SPP that corroborate the need and benefits of having CTs at OG&E's Mustang site. Nickell Direct at 4.

Mr. Nickell states that SPP conducted a Variable Generation Integration Study (VIS) that looked at system performance for years 2017 and 2021. He testifies that the study showed that under wind penetration levels of 45% and 60% and without generation at the Mustang site, SPP could experience voltage collapse and system overload, under certain credible circumstances. He also notes that the analysis indicated that without the CTs at the Mustang site, voltage collapse could occur in southern Oklahoma, which includes Oklahoma City, southwestern New Mexico, and northwestern North Dakota. He states that the analysis also found that without the Mustang CTs, SPP would experience congestion in western Oklahoma including overloads on the Cimarron-Draper 345 kV line. In addition, Mr. Nickell says there is a growing need for more local reactive support in the Oklahoma City area due to the import of wind power from an increasing number of remote wind facilities. He concludes that the Mustang CTs can provide improved voltage and power support to offset the increasing reliability risks in the Oklahoma City area. *Id.* at 5-7. Mr. Nickell testifies that SPP also conducted a single contingency (N-1) study for the summer and winter peak conditions expected during 2018 and 2021. He explains that, similar to the VIS, this analysis also demonstrated that generation at the Mustang site is useful in preventing and reducing thermal overloads on area transmission facilities. Without generation facilities at Mustang, Mr. Nickell says SPP's planning studies will show a need for transmission upgrades in accordance with its Open Access Transmission Tariff. Without the Mustang CTs, transmission upgrades would be necessary and per SPP's cost allocation criteria, Arkansas ratepayers would bear some of those costs. *Id.* at 7-8.

OG&E witness Robert J. Burch testifies to the operational and engineering reasons supporting the decision to retire Mustang Units 1, 2, 3 and 4 and replace those with modern gas CTs. He also discusses why the Mustang site was ideal and the contracting and construction processes. He updates the cost and time of the CT installation. Burch Direct at 3.

Mr. Burch testifies that the four steam electric generating units at the Mustang location had a total generating capacity of 480 MW when constructed and are the oldest in OG&E's fleet. He describes the Units 1 through 4 and notes that OG&E's 2014 IRP update addressed the probable retirement dates for all of the Mustang units. *Id.* at 3-4.

Mr. Burch states that a 2012 independent study by Burns and McDonnell recommended almost $17 million of capital investment in Unit 1 (U1) to get three more years of life. He says the study recommended another $16 million in investment in Unit 2 (U2) to operate until 2017 and that it would take a large part of this time to complete the capital projects. He indicates that U2 was retired in 2015 after a problem developed within the steam turbine; continued operation could have caused failure and the repairs were deemed not justified given how often the unit runs and the 2017 planned retirement date. *Id.* at 4.

Mr. Burch testifies that the 2012 Burns and McDonnell report combined with a subsequent Black and Veatch analysis of the Company's decision to retire Unit 3 (U3) and Unit 4 (U4) identified over $75 million of needed investments to reach 65 years of life and retire in 2021 and 2025, respectively. He says this investment addressed only a few key areas but did not include all critical components. OG&E believes making that level of investment to last a few years does not make sense, does not guarantee a 65-year service life, and risks leaving stranded investments. Mr. Burch testifies that OG&E has retired a number of gas-fired units and that the average retirement of these units came after 51 years of service. *Id.* at 6-10.

Mr. Burch concludes by stating that he believes OG&E has made sound decisions around retiring and replacing the old Mustang units. He opines that the new CTs provide much better operational flexibility than the existing units or other types of CTs and have the ability to start and stop multiple times each day to maximize customer benefit in the SPP market. He notes that the Mustang site provides multiple transmission system reliability benefits and significant cost savings as compared to a greenfield site. *Id.* at 23-24.

Mr. McAuley addresses why the Mustang site clearly provides unique reliability benefits to the transmission system and why those benefits are important for both daily operations and system restoration situations. He also discusses how quick-start CT generation at Mustang is a valuable tool for Transmission System Operators to ensure reliability of the grid, especially with the increased amount of variable wind resources in SPP and Oklahoma. McAuley Direct at 4.

Mr. McAuley explains in detail the advantage the Mustang plant provides in managing Volt Amps Reactives (VAR) due to its proximity to Oklahoma City and its connections to both the 138kV and 69kV power systems. He describes how the Mustang plant is involved in the system restoration plan should a blackout scenario ever be encountered. He points to an evaluation of the Company's decision to retire the old Mustang units, performed by engineering consulting firm Black & Veatch, which he states recognized the strategic value of the Mustang site. *Id.* at 9–11.

Mr. McAuley states that the SPP studies and witness Nickell's testimony validate the need for the new CTs at the Mustang Plant. He does not believe that installing new combined cycle (CC) units at the Mustang plant would provide equal or more benefits compared to CTs, because the CCs do not provide the quick-start capability. *Id.* at 11–14.

AG

Ms. Tacker explains that Ark. Code Ann. § 23-18-104 requires Commission pre-approval before any utility subject to Arkansas jurisdiction commences construction of a power-generating facility to be located outside of the boundaries of the state. She proposes a remedy for OG&E's violation of the Arkansas statute requiring Commission pre-approval prior to construction of a new generation facility. Ms. Tacker recommends approving OG&E's Plan as consistent with the public interest but only if the Commission also adopts the AG's proposed remedy. The statute also states that the Commission can disallow all costs and expenses associated with the construction and subsequent operation of the facility if the utility fails to abide by this requirement. The AG believes that the Commission must assess some sort of ratemaking adjustment upon OG&E, to be borne by its shareholders, as an acknowledgement that it failed to follow the requirements of Arkansas law regarding plant construction. Ms. Tacker says a ratemaking adjustment benefiting Arkansas ratepayers would at least partially compensate ratepayers for the opportunity that they were denied in not allowing for Commission review of the application prior to commencement of construction. In addition, the AG wants to demonstrate to other jurisdictional utilities in Arkansas that strictly conforming with Arkansas statutes is in the best interest of Arkansas ratepayers and that the Commission will impose appropriate ratemaking remedies upon any company which fails to follow such requirements. To such end, Ms. Tacker has consulted with Staff and recommends a credit to ratepayers of $300,000 a year for four years, with a total monetary assessment of $1.2 million. The mechanism for collecting the credit would be worked out by the parties. Tacker Direct at 3-5.

AG witness Woodruff believes OG&E's plan to modernize the Mustang Plant is in the public interest but points out three issues that the Commission should address before approval. First, he states that OG&E decided to directly contract for construction of the Mustang CTs, rather than hire an Engineering, Procurement and Construction contractor. Second, Mr. Woodruff says OG&E and SPP provided incomplete documentation in some instances when testifying to the reliability benefits of the Mustang CTs. Third, he observes that OG&E gave inconsistent statements regarding the increased VAR Capability of the new Mustang CTs. Woodruff Direct at 4-5.

STAFF

Staff witness Butler addresses the Mustang Plant cost recovery issues that were presented by OG&E witness Rowlett and identifies the other Staff witnesses. Butler Direct at 3.

Ms. Butler observes that OG&E estimated that the total cost of $390 million resulted in an estimated Arkansas-jurisdictional revenue requirement of $3.7 million to be recovered during the Company's first Rider FRP filing. That filing will be made in October 2018 and will include the projected year April 1, 2019 through March 31, 2020. Ms. Butler testifies that she agrees with the method OG&E used to calculate the revenue requirement as being consistent with the Rider FRP requirements. *Id.* at 4.

Ms. Butler states that based on Staff witness Wolfe's proposed depreciation rates and using the most recent Company-provided estimates of the total capital costs, she determined the actual revenue requirement for the October 2018 Rider FRP filing to be $3.8 million. She states that final costs will be known and reflected at the time of that Rider FRP filing. *Id.* at 4-5.

Ms. Butler testifies that Company witness Rowlett identified two issues that must be addressed: 1) The Company acknowledges that it did not comply with Ark. Code Ann. § 23-18-104 because the Company began construction of generating facilities outside of the state prior to receiving the required express written approval of the Commission; and 2) OG&E failed to comply with Section 4.6 of the Commission's *Resource Planning Guidelines for Electric Utilities* (Resource Planning Guidelines). This section requires a self-build option to be compared to market opportunities identified under a competitive bidding process. *Id.* at 5. Ms. Butler testifies that failure to comply with Ark. Code Ann. § 23-18-104 constitutes grounds for disallowance of all of the costs and expenses of the facility. Because Staff witness Cotten has found that constructing the new generation facilities at the Mustang Plant is in the public interest, Ms. Butler does not recommend a full disallowance of costs. Instead, based solely on OG&E's failure to comply with Ark. Code Ann. § 23-18-104, she recommends a downward adjustment in the recovery allowed in rates for the seven CTs at the Mustang Plant. She recommends that OG&E be required to credit $300,000 annually for four years ($1.2 million total) to Arkansas ratepayers. While not the basis for her downward adjustment, witness Butler states that the $300,000 credit is comparable to reducing OG&E's authorized ROE on the capital investment in the seven new CT's by 150 basis points. She states that in later filings in this docket the parties can determine the mechanism for the bill credit to flow to ratepayers. Ms. Butler recommends that:

- The revenue requirement for the seven CTs added at the Mustang Plant be addressed in the Company's Rider FRP.

- OG&E be required to credit Arkansas ratepayers $300,000 annually for the first four years ($1.2 million total) of recovery as she discussed earlier.

Id. at 6-7.

Mr. Cotten addresses whether it is in the public interest for the Commission to issue a declaratory order based on OG&E's Application for approval of construction of a natural gas-fired combustion turbine facility. Cotten Direct at 3.

Mr. Cotten describes the current generating facilities located at Mustang, consisting of approximately 480 MW of generation. He states the existing gas fired steam turbines are scheduled for retirement in 2017, which creates the need for replacement capacity required to meet existing load and the reserve margin determined by SPP. *Id.* at 9. He states that the addition of the proposed CTs to OG&E's generation portfolio is consistent with its IRP. He continues by stating the Company did not perform a competitive bidding process to replace the capacity of the retiring units (a request-for- proposal process is not specified), but it did conduct a competitive bidding process for the construction and installation of the Mustang CTs. *Id.* 15–17.

Mr. Cotten concludes that based on the Company's Application and Direct Testimony, the proposed facilities are needed, and considering the rate treatment of Staff witness Butler, are in the public interest. *Id.* at 18–19.

Ms. Wolfe addresses OG&E's requested depreciation rates for the Mustang CT units. She testifies that the depreciation rates approved in Docket No. 16-052-U reflect the retirement of Mustang U3 and U4 at the end of 2017. She states that since Mustang U1 and U2 were retired previously, they do not have depreciation rates. However, Ms. Wolfe states that the depreciation rates requested by the Company are based upon the analysis conducted for the Company's upcoming general rate case in Oklahoma. Ms. Wolfe determined that the Company included terminal net salvage along with interim net salvage in its rate calculations. She says that OG&E failed to submit a dismantlement cost study to support the terminal salvage values which Staff consistently requires. As a result, she disagrees with the Company's requested rates. Ms. Wolfe states that OG&E's depreciation rates for the new CTs were computed using the same method, procedure, technique, and other parameters used for similar CT plants. She does agree with and used the Company's remaining life for the new CTs. She opposes the company's request for new rates for those assets and instead recommends that they be required to use the currently approved depreciation rates. Ms. Wolfe states that her recommended rates would result in an Arkansas jurisdiction annual depreciation expense of $1.1 million compared to the $1.06 million requested by OG&E. Wolfe Direct at 4-8.

In addition to recommending that the Commission approve her depreciation rate recommendations, Ms. Wolfe also recommends that the Commission require OG&E to submit a comprehensive dismantlement study in support of any future terminal net salvage included in its depreciation rate request. *Id.* at 8.

The table below shows the Company proposed rates and Witness Wolfe's proposed rates for accounts 341-346.[1]

[1] See, Table 1 and Table 2 in Direct Testimony of GerriLynn Wolfe at 5 and 7.

FERC Account	Rate Recommended By	
	OG&E	Staff
341 - Structures and Improvements	3.00%	3.24%
342 - Fuel Holders, Producers and Accessories	2.95%	3.18%
343 - Prime Movers	3.45%	3.56%
344 - Generators	3.16%	3.19%
345 - Accessory Electric Equipment	3.10%	3.19%
346 - Miscellaneous Power Plant Equipment	3.31%	3.34%

Settlement Testimony

As stated previously, the parties propose a settlement of this matter and filed the Joint Motion to approve the Settlement on December 6, 2017. On behalf of OG&E, Mr. Rowlett testifies that the signed Settlement Agreement is attached to the Motion as Joint Exhibit 1 and that the settling parties agree to the following:

1. OG&E's Mustang Plant Modernization Plan is consistent with the public interest;

2. Quick-start combustion turbines are needed to maintain OG&E's generating capacity and reserve requirements;

3. Replacement of the retiring capacity at the Mustang site is critical to maintain reliable operations of the transmission system;

4. Settling Parties agree to utilize the depreciation rates presented in Table 2 of Staff witness Wolfe's Direct Testimony and OG&E shall use depreciation rates previously approved in Order No. 8 of Docket No. 16-052-U for any plant assets that are

added to plant accounts, other than those listed in Staff Witness Wolfe's Table 2, as a result of the approval of Mustang;

5. OG&E agrees to submit a comprehensive dismantlement study to support any future depreciation rate change requests that include terminal net salvage; and

6. The Settling Parties agree that it is appropriate to include the cost of the Mustang Plant Modernization Plan in OG&E's Formula Rate Plant filings and provide recovery through that tariff mechanism. Rowlett Settlement Testimony at 3.

Mr. Rowlett states that the Settling Parties agree that OG&E did not comply with Ark. Code Ann. § 23-18-104 and that this failure warrants a credit to customers in the amount of $300,000 annually for four years for a total of $1.2 million. He testifies that this adjustment is based upon OG&E's failure to follow Arkansas law and not on any adjustment for the Mustang Plant. Mr. Rowlett states that the mechanism used to credit customers the $300,000 annually will be OG&E's Energy Cost Recovery Rider. He explains that the credit will be applied to each customer class based on the base rate revenue approved in Order No. 8 of Docket No. 16-052-U at a rate of $25,000 per month for forty-eight months to begin on the first billing cycle following the issuance of the Commission's Order in this proceeding. *Id.* at 3-4.

Mr. Rowlett testifies that the Settlement Agreement is a reasonable compromise of the positions of the various parties and stakeholders, providing an equitable balance of customer and shareholder interest. He states the Agreement lies within the bounds of the filed positions of the parties and the end result is just, reasonable, and within the range of likely outcomes if the issues in the proceeding were litigated. He also states that the Agreement is a carefully crafted compromise that is in the public interest, without the need for additional expenditure of time or money by any party. Mr. Rowlett testifies that OG&E believes the result reached fairly balances the needs of all stakeholders. *Id.* at 4.

On behalf of the AG, Ms. Tacker recommends approval of the Agreement as being in the public interest. She states that the Agreement addresses the concerns raised by the AG in the following ways:

1. The testimony of Kevin Woodruff, on behalf of the AG, stated that construction of the CTs is reasonable under the circumstances. As such, the Agreement's support of the Mustang Plan is consistent with his Direct Testimony.

2. The AG, similar to the General Staff, expressed deep concern that OG&E failed to comply with an Arkansas-specific statute requiring pre-approval of construction, such as the Mustang Plan, prior to commencement of that construction. The Agreement calls for a unique solution to this Arkansas-specific statute, providing a credit to ratepayers of $300,000 per year for four years, with a total monetary assessment of $1.2 million. This resolves both of the AG's concerns triggered by OG&E's failure to follow the statute. First, this monetary assessment, benefiting OG&E's Arkansas ratepayers, partially compensates the ratepayers for the opportunity they were denied in not allowing for Commission review of the application prior to commencement of construction. Second, this ratemaking adjustment demonstrates to twenty-three other jurisdictional utilities in Arkansas that Commission pre-approval of construction of a power-generating facility will be strictly enforced in Arkansas. Tacker Settlement Testimony at 3-5.

Ms. Butler testifies on behalf of Staff that the Settlement Agreement includes all recommendations from Staff's Direct testimony: specifically, Clark Cotten's Direct Testimony concluding that OG&E's Mustang Modernization Plan is in the public interest with the adjustments recommended by Staff; Gerrilynn Wolfe's, Direct Testimony, including Table 2, concluding that OG&E should use Commission-approved depreciation rates in Order No. 8 in Docket No. 16-052-U, and that OG&E should submit to a comprehensive dismantlement study to support any future depreciation rate change requests that include terminal net salvage; and Ms. Butler's own Direct Testimony, recommending a downward adjustment to the amount OG&E is allowed to recover in rates for the Mustang Modernization Plan, to be implemented by crediting Arkansas ratepayers $300,000 annually for four years for a total of $1.2 million. Butler Agreement Testimony at 2-3.

Ms. Butler states that the Settling Parties agree that OG&E's failure to specifically follow Ark. Code Ann. § 23-18-104 warrants an adjustment for failing to comply with specific Arkansas requirements and procedures. The Agreement states that it is appropriate to include the cost of the Mustang Plan in OG&E's Rider FRP filings and provides for recovery through that tariff mechanism. The Agreement also provides for OG&E to use the Energy Cost Recovery Rider as the mechanism to apply the $300,000 annual credit recommended by Staff and the AG. The credit will be applied to each customer class based on the base rate revenues approved in Order No. 8 of Docket No. 16-052-U to be consistent with the allocation that would occur in OG&E's Rider FRP. The credit will be applied at a rate of $25,000 per month for 48 months and will begin immediately upon Commission approval of the Agreement. Ms. Butler states that the

Agreement includes all Staff's recommendations and agrees that it is in the public interest as set forth in Staff's Direct Testimony, and she supports the Agreement as reasonable and recommends its approval by the Commission. *Id.* at 4.

Findings and Conclusions

The Commission finds that substantial evidence supports the Settlement and therefore approves the Settlement Agreement as in the public interest. Pursuant to the Settlement, the cost to modernize the Mustang Plant, as modified in the Settlement, will be included in OG&E's Rider FRP filings and recovery will be through that tariff mechanism. The Commission finds that OG&E failed to comply with Ark. Code Ann. § 23-18-204 by not obtaining Commission approval prior to construction of a new generation facility to be located outside the boundaries of this state but, because the plan to modernize the Mustang Plant is in the public interest, declines to disallow all costs and expenses associated with the construction and subsequent operation of the facility and instead approves the remedy proposed in the Settlement. Specifically, relating to the credit to Arkansas ratepayers incurred as a result of OG&E's failure to comply with Arkansas Code Annotated § 23-18-204, OG&E will credit Arkansas ratepayers through its Energy Cost Recovery Rider at a rate of $25,000 per month for forty-eight months for a total of $1.2 million, applied to each customer class based on the base rate revenues approved in Order No. 8 of Docket No. 16-052-U to be consistent with the allocation that would occur in OG&E's Rider FRP. The credit will begin in the first billing cycle of the month immediately following this Order.

The Commission waives the remainder of the procedural schedule approved by the Commission in Order No. 2 in this docket, including the evidentiary hearing scheduled for February 1, 2018.

BY ORDER OF THE COMMISSION.

This 2nd day of January, 2018.

Ted J. Thomas, Chairman

Elana C. Wills, Commissioner

Kimberly A. O'Guinn, Commissioner

Karen Shook (Acting)
Mary Loos, Secretary of the Commission

I hereby certify that this order, issued by the Arkansas Public Service Commission, has been served on all parties of record on this date by the following method:

___ U.S. mail with postage prepaid using the mailing address of each party as indicated in the official docket file, or

X Electronic mail using the email address of each party as indicated in the official docket file.